LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7582 **DATE PREPARED:** Jan 9, 1999
BILL NUMBER: SB 472 **BILL AMENDED:**

SUBJECT: Adjusted gross income tax deductions.

FISCAL ANALYST: Diane Powers
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FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		**(52,000,000)**	**(107,300,000)**
State Expenditures			
Net Increase (Decrease)		**(52,000,000)**	**(107,300,000)**

Summary of Legislation: This bill provides a 100% adjusted gross income tax deduction for pension and annuity income and individual retirement arrangement distributions received by an individual who is at least 75 years of age. The bill makes conforming changes to existing provisions that provide certain partial deductions for retirement income.

Effective Date: January 1, 2000.

Explanation of State Expenditures: The Department of Revenue will have administrative expenses to revise tax forms, instructions and computer programming to accommodate this deduction. These expenses will be covered under their existing budget.

Explanation of State Revenues: In 1996, there was $4.5 B in reported taxable pensions and annuities income on the Indiana federal income tax returns. This income has been growing at approximately 6.5% annually over the last four years. According to the Census Bureau, it is estimated that 46% of individuals over the age of 65 are older than 75 years old. Assuming an effective date of January 1, 2000, it is estimated that Indiana residents 75 years and older will have approximately $2.6 B in retirement income in CY 2000.

There was also $873.6 M in reported IRA distributions in 1996 on Indiana federal tax returns. Assuming a

2% growth rate for this income and 46% of this income was claimed by individuals 75 years and older, it is estimated that there will be approximately $435 M of IRA taxable income in CY 2000.

The bill also amends the current deduction for military *retirement* income and the civil service annuity deduction since this income would be included in the total retirement income reported on the federal tax return. It is estimated that approximately $53.1 M in military retirement income and $9.9 M of civil service annuity income is already deductible on the Indiana tax returns. However it is not known how much of this income is from individuals 75 years or older but it is not considered to be much.

This new income tax exemption for the retirement and IRA income for individuals who are 75 years and older would result in a loss of approximately $52 M in individual income tax revenue in FY 2000 (6 months) and $107.3 M in FY 2001. The revenue loss would continue to grow annually with an estimated loss of $113.5 M in FY 2002. The six month revenue impact in FY 2000 assumes that taxpayers will change their quarterly payments or withholdings to adjust for these new deductions.

Individual income tax is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties with a local option income tax would experience an indeterminable decrease in revenue collections due to the deduction of retirement income.

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Internal Revenue Service, Statistics of Income Bulletin, Spring 1998; Department of Revenue, Individual Income Tax Statistics; U.S. Census Bureau, Current Population Reports.